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LOCAL IMPACT OF HURRICANE KATRINA

Hurricane Katrina ravished the Gulf Coast on August 29. Its devastating occurrence and aftermath have spawned a whirlwind of emotions and raised many concerns. To address some of these questions, this article briefly outlines several ways in which Katrina will likely impact Michiana's local economy.

Most obvious is higher energy costs, which have already been felt by most. These increased costs for goods such as gasoline, diesel fuel natural gas, and other oil based products – including agricultural fertilizer – stem largely from fluctuations in market forces due to the substantial decrease in the supply of oil, which was disrupted by the hurricane, and revisions to expectations about future supplies and prices. These factors indicate that energy prices should rise, as has already been seen. To mitigate these effects somewhat, the federal government pledged to tap its domestic reserves, loosened environmental restrictions on gas quality, and negotiated increased supply from foreign producers. However, these efforts are likely short term, which suggests that their dampening effect on prices could diminish over time causing prices to once again rise. Rising energy prices would also be more likely if consumption is not curbed and the risk of supplying oil remains high or worsens. The impact of continued high energy costs in the local area will affect consumers, transportation, farming, and automotive manufacturing to varying degrees.

A positive outcome for the local economy is a temporary increase in demand for goods and services produced here by those outside the region, which pumps new money into the local economy. For example, reconstruction of the demolished southern coast will require enormous amounts of resources, goods, and services. As seen in other natural disasters, demand for RVs, trailers, modular homes and buildings, and generators has increased as part of relief and reconstruction efforts. Demand for these locally produced products has already been reported to have increased and will likely increase more in the coming weeks and months.

Another impact of Katrina on the local economy is the redistribution of resources and services of local non-profit organizations and government agencies, such as the United Way, Red Cross, and workforce and human services agencies. The magnitude of this impact will depend on the amount of involvement local agencies have in Katrina-related efforts and the duration of that involvement. For example, the area already has received survivors displaced from hurricane-hit areas. The individuals and families require assistance with housing, schooling, finances, jobs, and so on. Given the fairly fixed levels of staff, funds, and resources for many of these agencies, these organizations are faced with trade-offs in their ability to provide services.

Most uncertain at this point is the effect of Katrina on altering economic behavior. Due to disruptions in production across many sectors, the economy will likely face a slowdown over the coming months. This can be mitigated to some extent by increased demand in some sectors such as construction. In addition, economic activity may slow down if consumers grow more cautious than they otherwise would have. Dampened consumer spending would have a noticeable effect locally given the strength of the retail and service sectors in this area. The more cautious consumers become, the more significant the impact would be on the economy.

Watchful eyes should closely monitor economic activity in an effort to minimize the negative impact of Hurricane Katrina on the local economy.

2ND QUARTER SUMMARY

The Michiana region's economy sent mixed signals in the second quarter of 2005. Employment levels showed mild declines and unemployment rates increased, while housing activity remained strong, industrial electricity usage grew, and demand for labor initially continued its decline but rebounded in June. The table on page 2 reports regional economic indicators for April through June of 2005. The graphs on pages 2 and 3 show trends in regional economic indicators beginning in January 2004. (Note that these data are for seasonally adjusted indexes and not unadjusted levels.)

In the South Bend metropolitan area, total non-farm employment fell one percent from April to June 2005. Employment fell in both the manufacturing and non-manufacturing sectors. Over the second quarter of 2005, the biggest loss in employment was in manufacturing, which saw a 1.8 percent decline. Non-manufacturing employment saw a more modest drop in employment of 0.8 percent.

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Michiana Economic Indicators

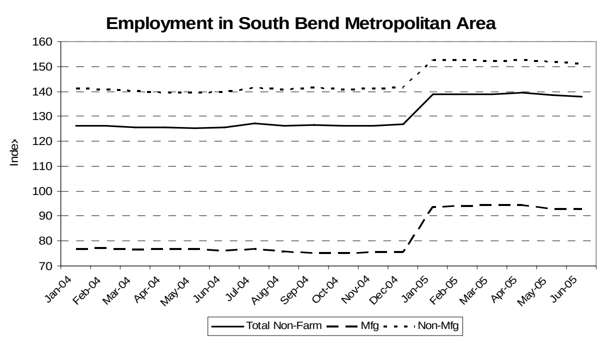
		2005			
		April	May	June	Monthly Average
South Bend	Employment (in thousands)[1]				
	Total non-farm Index	139.4	138.5	138.0	138.6
	Manufacturing Index	94.5	92.6	92.8	93.3
	Non-manufacturing Index	152.4	151.9	151.2	151.8
	Unemployment rate[1]	5.0%	4.5%	4.9%	4.8%
	Help Wanted Ads Index[2]	67.5	61.8	74.2	67.8
	Industrial Electricity Usage Index	104.5	105.7	111.4	107.2
	Single-Family Housing[3]				
	Total Value of New Permits Index	147.0	170.0	231.2	182.7
	Number of New Permits Index	82.2	90.2	107.8	140.1
	Average Value of a New Permit Index	174.5	185.6	210.6	190.2
Elkhart-Goshen	Employment (in thousands)[1]				
	Total non-farm Index	143.9	143.1	142.0	143.0
	Manufacturing Index	132.0	130.6	128.9	130.5
	Non-manufacturing Index	157.7	157.6	157.3	157.5
	Unemployment rate[1]	4.2%	3.8%	4.4%	4.1%
	Help Wanted Ads Index[2]	43.5	40.7	59.6	47.9
	Industrial Electricity Usage Index	65.9	67.2	70.4	67.8

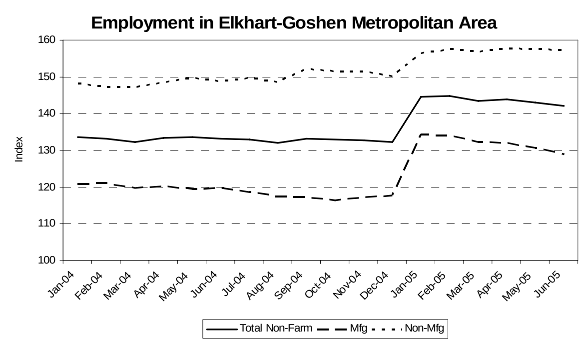
Notes: All figures except for unemployment rates are seasonally adjusted indexes with a base year of 1986=100 using the U.S. Bureau of the Census X11DR seasonal adjustment program.

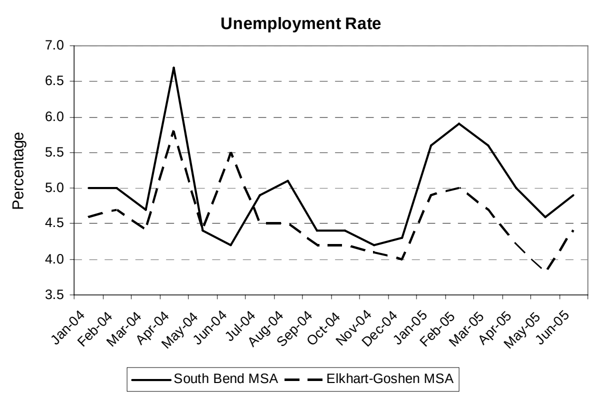
[1]For South Bend and Elkhart-Goshen metropolitan statistical areas, respectively.

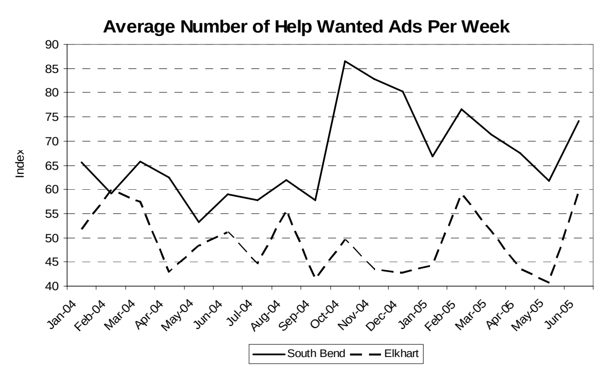
[2]Based on ads listed in the *South Bend Tribune* and *Elkhart Truth*, respectively.

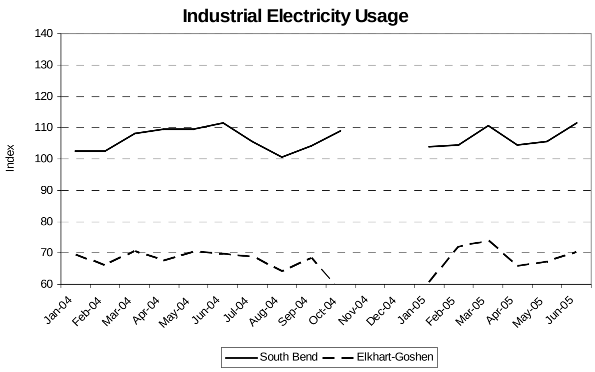
[3]For St. Joseph County; housing data unavailable for Elkhart County.



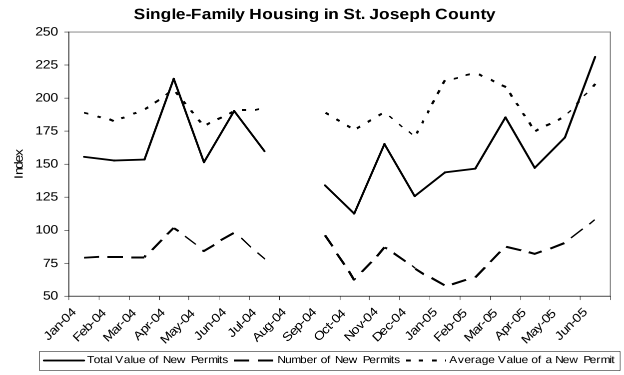








*Data unavailable for November-December 2004



*Data unavailable for August 2004

The Elkhart-Goshen metropolitan area saw similar changes in employment but stronger declines in manufacturing employment than the South Bend area. Total non-farm employment in the second quarter fell by 1.3 percent, which was largely driven by the drop in manufacturing employment of 2.3 percent. Given the higher concentration of manufacturing in Elkhart County than in St. Joseph County, this slump in manufacturing employment would be felt more strongly in Elkhart than in South Bend. Non-manufacturing employment fell slightly by 0.3 percent.

As in the first quarter, the region's unemployment rates in the second quarter remained below the state and national rates, a sign that this region's employment prospects continue to be relatively better than in most other areas of the Indiana and many areas throughout the country. The unemployment rates in South Bend and Elkhart-Goshen continued to fall in April and May but turned up in June. The unemployment rate in the South Bend area during the second quarter remained at or below 5 percent. Unemployment in the Elkhart-Goshen metropolitan area remained relatively low compared to South Bend, particularly in April and May. However, the gap narrowed in June as unemployment rates turned upwards. The average monthly unemployment rate in the second quarter of 2005 was 4.8 percent in Elkhart-Goshen and 4.9 percent in South Bend.

Demand for labor, based on employment ads in local newspapers, declined from April to May but rebounded in June. This coincides with the fall in employment seen during the same period. However, the increase in help wanted ads in June hopefully signals the decline in labor demand will not last long. From April to June, the South Bend area saw ads in the *South Bend Tribune* increase solidly by 9.9 percent. This is in part driven by continued growth in the retail sector and the entry of new firms into the area. The Elkhart-Goshen area saw even more pronounced growth in labor demand. Employment ads listed in the *Elkhart Truth* rose substantially by 37 percent from April to June.

As an indicator of productivity, industrial electricity usage in the Michiana region remained solid in the second quarter of 2005 and showed noticeable growth over the quarter, particularly in June. Industrial electricity usage in South Bend expanded 6.6 percent from April to June, comparable to the 6.5 percent growth seen in the first quarter. Industrial electricity usage in Elkhart also continued to increase but not as rapidly as in the first quarter. Industrial electricity usage expanded by 6.8 percent during the second quarter of 2005. This is likely due to the slight slowdown in the manufacturing sector.

Activity in the new housing market continued to provide a boost to the local economy. Despite trends in interest rates, dampened local employment, and increasingly cautious economic conditions nationally, housing activity in St. Joseph County remained strong in the second quarter of 2005 and was greater than activity during the same period in 2004. The number of new building permits for single-family dwellings issued each month grew by a substantial 31.4 percent between April and June. Not only did the number of permits increase, but also the value of those permits. The total value of new housing permits increased approximately 57 percent over the second quarter of 2005, and the average value of a housing permit rose almost 21 percent.

Based on these indicators, the Michiana economy has sustained its promising start at the beginning of 2005 but faced what will hopefully be minor, short-lasting declines in employment. However, given the recent occurrence of Hurricane Katrina, the strength of the regional economy in the remainder of the year and into 2006 may be less certain depending on Katrina's effect on the national economy. Factors to watch will be consumer confidence and spending, government finance and policies, industrial productivity, and inflationary pressures. The next issue of *Michiana Business* will report on performance of the regional economy during the third quarter of 2005.

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For information, contact the BBER at 574-520-4133

Public Forum on Gasoline Prices

The IUSB School of Business and Economics will host a free forum open to the public to discuss why gasoline prices are rising and the impact these prices will have on consumers, businesses, and the local economy. The distinguished panel leading the discussion will include representatives from industry, local government, civic action groups, and the academic sector.

Date: **Wednesday, October 12, 2005**
Time: **7:30-9:30 PM**
Location: **Wiekamp Auditorium (Room 1001, Wiekamp Hall), IUSB campus**

ENTREPRENEURSHIP LECTURE SERIES

This fall once again brings a dynamic series of lectures by local executives on aspects of entrepreneurship. This series is presented by the School of Business and Economics at Indiana University South Bend and generously supported by Lake City Bank and the Chamber of Commerce of St. Joseph County. All lectures are free and open to the public. The lectures will take place in Room 1001, Wiekamp Hall, at 7 PM on Thursday evenings.

9-08 Mark Tarner, South Bend Chocolate Company
A Framework for Entrepreneurship

9-15 Rick Singleton, Studio A
Resources and Capabilities

9-22 George Witwer, Humanizing Technologies
The E-Entrepreneur

9-29 Scott Welch, Welch Packaging
Entrepreneurial Strategies

10-06 Jim Powers, Crowe, Chizek and Company
The Business Plan

10-20 John Regan, Fabric Services
The Environmental Entrepreneur

10-27 Thomas Hiatt, Centerfield Capital Partners
Foundations of New Venture Finance

11-03 Michael Kubacki, Lake City Bank
Securing Investors and Structuring the Deal

11-10 Robert Bartels, Jr., Martin's Supermarkets
Creating the Organization

11-17 Dan Fitzpatrick, Quality Dining
Corporate Venturing, Networking and Franchising

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